

Investing in and financing the hydrocarbon sector

The role of insurance and guarantees

UNECE Committee on Sustainable Energy

Geneva, 28 November 2007

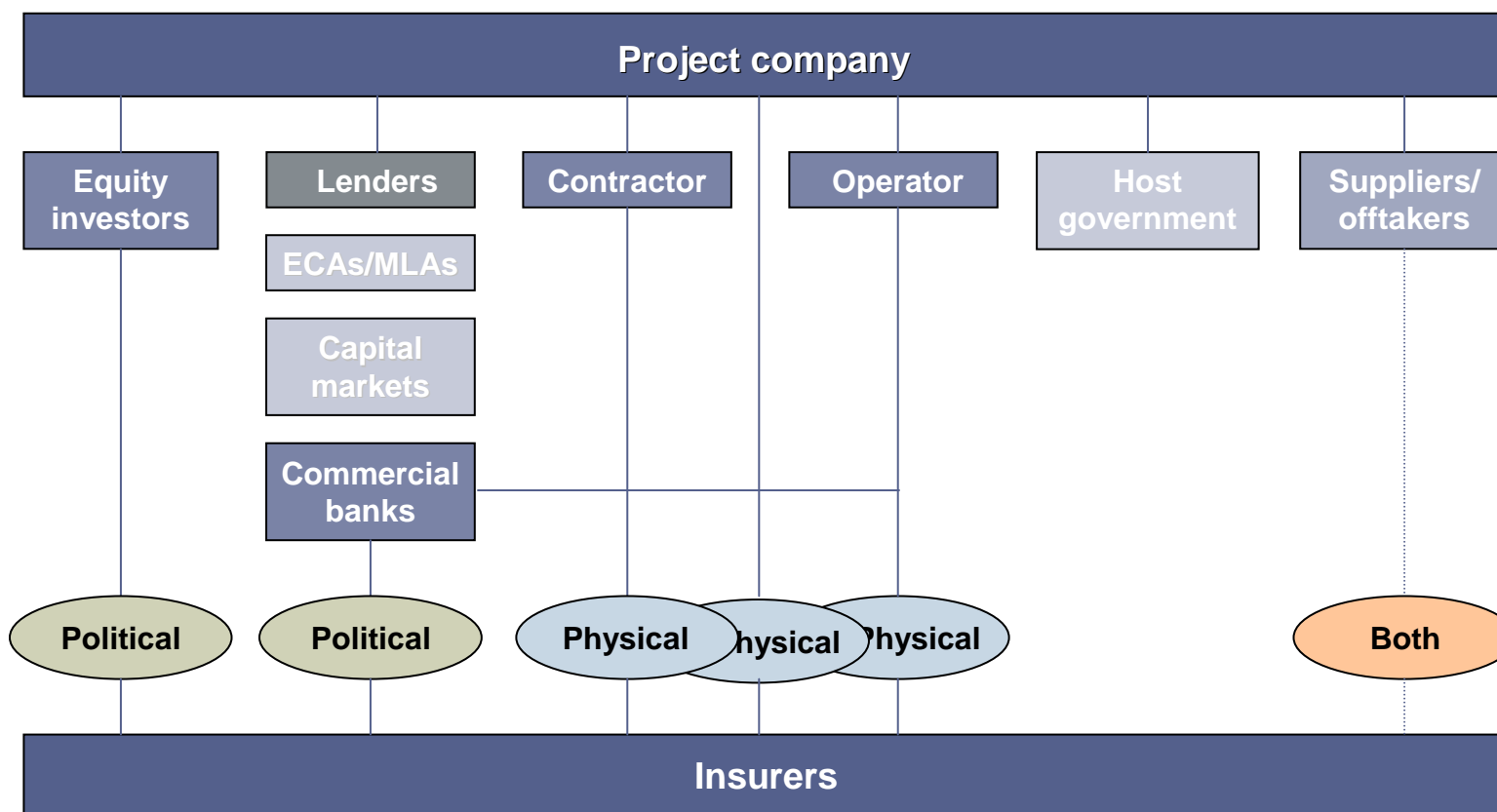
Agenda

- Functions of insurance and guarantees
- Insuring parties
- Political risk insurers
- Insurable risks
- Insurance limitations
- Conclusion

Functions of insurance and guarantees

- Risk transfer
- Contingent capital
- Portfolio management
- Leverage
- Credit enhancement

Insuring parties



Political risk insurance market

- Commercial insurers (e.g. AIG, Lloyd's, Sovereign, Zurich)
- Government agencies (ECAs)
- Multilateral agencies (e.g. MIGA, ICIEC, IADB)
- Capital markets (e.g. sovereign default swaps)

Insurable risks

Operational	• Fire/explosion
	• Equipment breakdown
	• Natural hazards (earthquake, hurricane etc)
	• Marine/transport accident
	• Environmental impairment
	• Performance (strikes, lack of resources)
Financial	• Prices (feedstock and product)
	• Interest rates
	• Currency exchange rates
	• Supplier/offtaker failure
Country	• Political (confiscation, concession breach or cancellation)
	• Economic (convertibility and transfer)
	• Security (war, insurrection, terrorism, crime)
	• Regulatory (licences)
	• Administrative (delays, corruption)
	• Legal (clarity, enforceability, judicial independence)

Insurable political risks

- Expropriation (inc. creeping)
- Selective discrimination
- Forced abandonment
- Forced divestiture
- Deprivation of rights
- Cancellation of operating licence
- Cancellation of import/export licence
- Cancellation, breach or forced renegotiation of concession agreement
- Non-honouring of sovereign payment obligation or guarantee
- War, civil war, terrorism
- Restrictions on remittances

Lender's interest

An expropriatory act ... which

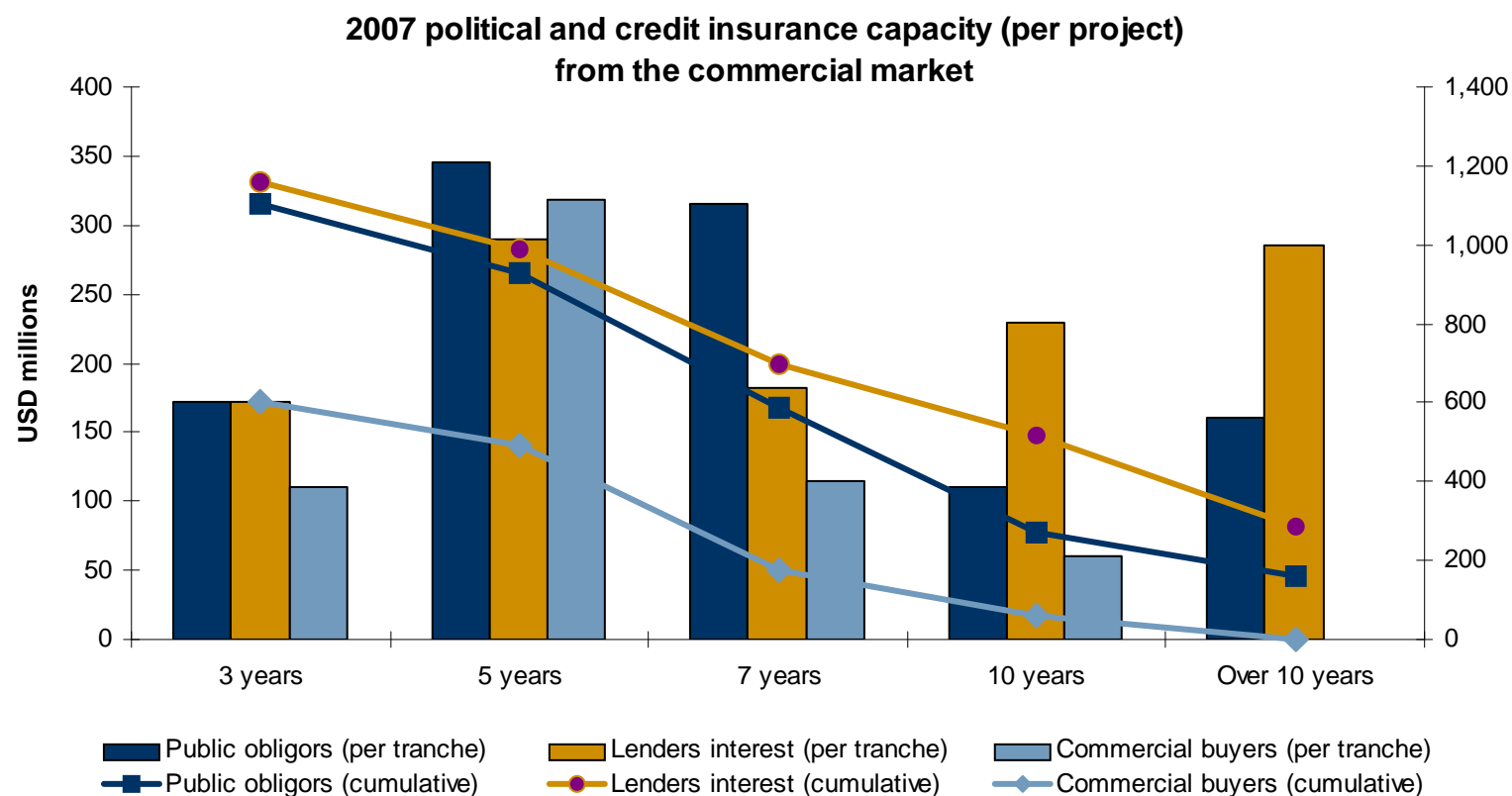
- (a) prevents the Insured from receiving a Scheduled Payment from the Borrower; or
- (b) deprives the Borrower of its ability to control or dispose of all or part of its property or operate the Project which directly results in a default on a Scheduled Payment; or
- (c) causes a default on a Scheduled Payment; or
- (d) expressly deprives the Insured of its fundamental rights as a creditor in respect of a Scheduled Payment that is otherwise in default for commercial reasons, including rights against collateral security and/or commercial guarantees of repayment

Inconvertibility and non-transfer, and war and political violence, are also covered

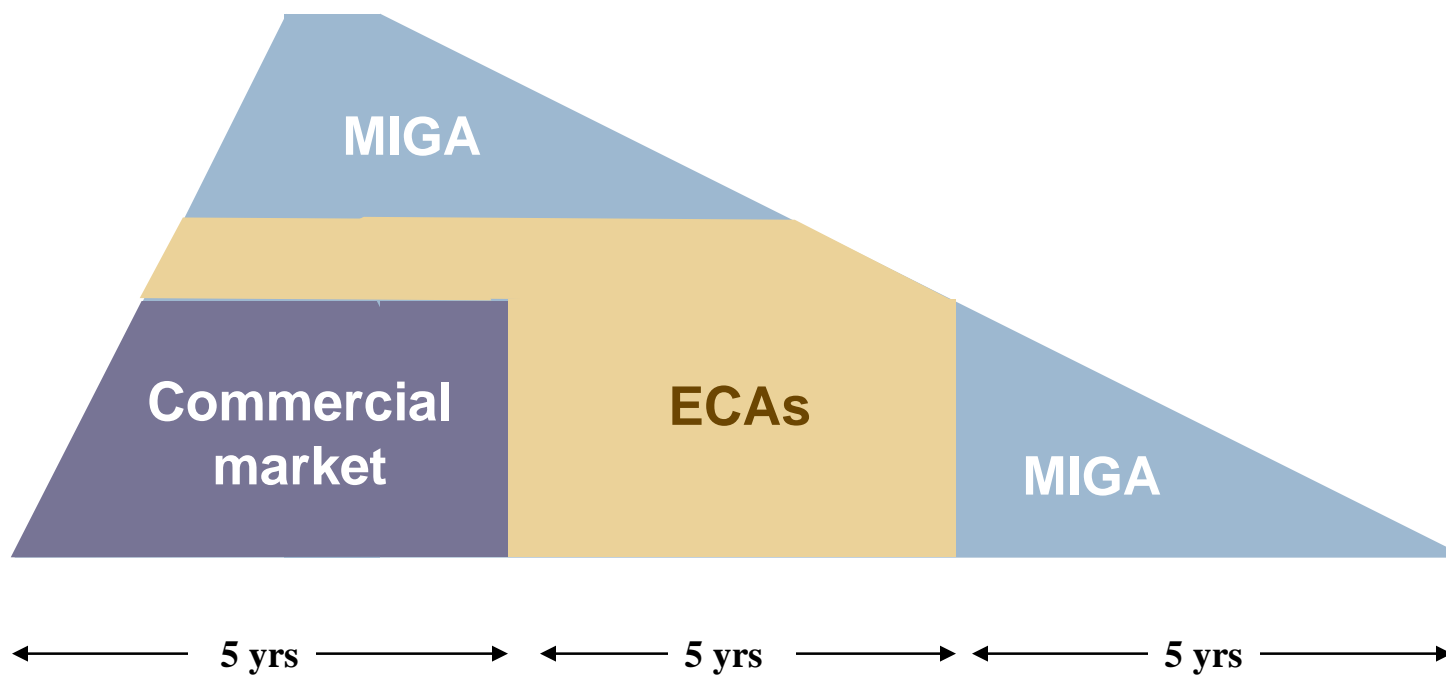
Insurance limitations

- Insured risks
- Amount (varying as to risk, project and country)
- Period
- Some insurance (especially political risk insurance) protects only the balance sheet, not future loss of revenue

Insurance capacity



Risk sharing by time



Conclusion

- Insurance cannot cover all project risks
- Insurance does not turn a bad project into a good one
- Insurance is an essential and integral component of energy projects